



# Meade County RECC

P.O. Box 489  
Brandenburg, KY 40108-0489  
(270) 422-2162  
Fax: (270) 422-4705

June 7, 2005

RECEIVED

JUN 08 2005

PUBLIC SERVICE  
COMMISSION

BETH O'DONNELL, EXECUTIVE DIRECTOR  
KENTUCKY PUBLIC SERVICE COMMISSION  
211 SOWER BLVD  
FRANKFORT KY 40602

Dear Ms. O'Donnell

Enclosed is an original and ten copies of the response to the Kentucky Public Service Commission's request in Administrative Case No. 2005-00090 presented by Burns Mercer, President/CEO of Meade County Rural Electric Cooperative Corporation on behalf of Kentucky's 24 electric distribution cooperatives.

Very truly yours,

Burns E. Mercer  
President/CEO

BEM:msr

RECEIVED

JUN 8 2005

PUBLIC SERVICE  
COMMISSION

**RESPONSE TO THE PUBLIC SERVICE COMMISSION'S REQUEST  
IN ADMINISTRATIVE CASE NUMBER 2005-00090  
PRESENTED BY BURNS MERCER, PRESIDENT, MEADE COUNTY RECC  
ON BEHALF OF KENTUCKY'S 24 ELECTRIC DISTRIBUTION COOPERATIVES**

1. **What additional information or data, if any, should the commission consider in developing the strategic blue print?**

*Response: I'm not sure where the issue of sales tax might fall in the strategic blue print, if it's incorporated at all, but it does have a potentially serious impact on our competitive electric rates. Without question, one of the cornerstones of Kentucky's economic development success has been the reality of having the lowest electricity rates in the United States for some time. But, oftentimes, the difference between the lowest cost state and the second or third lowest cost states is very small. Any significant impact on Kentucky's overall electricity cost could endanger this ranking.*

*Presently, the Kentucky Department of Revenue, through field audits, is determining that several items, which historically have been tax exempt, are now taxable. We strongly disagree with the logic of this reasoning. Its impact will quite literally go into millions of dollars – industry wide. The industry has voiced its concern about the Revenue Cabinet's position with the appropriate officials and we are hopeful that some relief might be granted. A major component of this issue is that distribution and substation transformers have always been tax exempt, and we are now being told that they are subject to the sales tax, not only for the current year of audit, but for the three previous years as well, in addition to interest and penalties. There are several other items of concern as well.*

2. **What are the top issues facing the electric power industry in Kentucky over the next 20 years?**

*Response: I will stress four points about future issues:*

- A. *The price and availability of generation fuels in the future is very uncertain. Over the years, we've seen coal as the primary fuel source, along with a growing percentage utilization of natural gas. The cost and volatility of fuels is a growing concern because of the impact on consumer bills.*
- B. *The cost of compliance with environmental standards will be increasingly expensive and will increase electric bills.*
- C. *Generation technology in the future will be more expensive. New generation capacity to meet the system's growth will need to encompass both environmentally sound technology and be as cost effective as possible.*

June 6, 2005

#### **D. Transmission and Distribution Rights of Ways**

*The issue of transmission (and in some cases distribution) construction and specifically the process by which we obtain rights of ways for transmission facilities is a major issue. If you compare today to the earliest days of rural electrification, there is literally no comparison. People in the 40s and 50s were eager to have electricity and eager to give of their property to have that wonderful opportunity for service. Today, electricity has become increasingly viewed as a right and not as a privilege. Increasingly, many view power lines as a major inconvenience and a detraction from property values. We do not take issue with this personally other than to say that it is a reality and one, which carries immense ramifications.*

#### **3. Barriers to investment needs.**

##### Response:

- A. *Regulatory equity. The origin of merchant plants and the treatment of municipal electric utilities pose a degree of frustration in an open market place, which heavily regulates practically everybody else in the electric utility industry. A truly level playing field is important. Obtaining such an objective is admittedly difficult.*
- B. *All power requirement contracts. All power requirements contracts should be used as an incentive to invest in facilities in Kentucky. If these contracts are capable of being broken over a period of time, the resulting impact on the source of generation could be virtually catastrophic.*
- C. *For distribution cooperatives, the regulatory approval process in general and for our work plans specifically is becoming increasingly complicated and costly. It's often an impediment to making necessary plant improvements needed to continue providing reliable, safe and cost efficient electricity. We would welcome a chance to discuss ways to improve this process.*
- D. *The future of government financing through the Rural Utilities Services (RUS) is very important to distribution cooperatives. While over fifty per cent of our funding is obtained through private sources or internally generated funds, the RUS loan program is still enormously important. If that funding is curtailed or abolished in the future, there will be significant repercussions for electric distribution cooperatives and their members. A new funding approach would require a complete reassessment of our financing together with an educational program of explanation, etc.*